COMMITTEE ON THE BUDGET
MAJORITY CAUCUS
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BRIEFING POINTS

CBO'S BUDGET AND ECONOMIC UPDATE

28 August 2001

SUMMARY

The update of the budget and economic outlook for 2002 through 2011 by the Congressional Budget Office [CBO] largely reinforces last week's administration assessment: the Government is running historically large surpluses, but Congress must exercise firm spending restraint to continue protecting Social Security surplus funds. Key points in CBO's report (also see summary table on the next page):

- Despite the economic slowdown that began in the summer of 2000, CBO shows surpluses of $153 billion in fiscal year 2001, $176 billion in fiscal year 2002, and $3.4 trillion for the 2002-2011 period. These figures are essentially the same as those of the administration's Office of Management and Budget [OMB].

- Whereas the administration projects a $1-billion surplus this year (2001) after excluding Social Security funds (the so-called "on-budget" surplus), CBO estimates that on-budget spending will exceed revenues in 2001 by $9 billion. This would pose no threat to Social Security solvency or benefits. It would affect only the estimated amounts available for debt reduction this year. (Final figures will not be available until late October.)

- CBO projects Social Security surpluses of $2.5 trillion over the next 10 years, essentially the same as the administration figure.

- CBO also projects non-Social Security surpluses of $847 billion over the next 10 years, including $404 billion in Medicare Hospital Insurance surpluses. (The administration's total non-Social Security surplus of $575 billion over the next 10 years assumes spending for administration initiatives in education, agriculture, defense, and elsewhere. CBO's does not. See further explanation at the end of this document.)

- CBO and OMB are separate estimating units that employ different assumptions and methodologies in certain areas (see further discussion on the last page of this document). Nevertheless, both agencies are projecting highly similar long-term estimates of the overall budget outlook.

Summary of CBO's Budget and Economic Update
(in billions of dollars)

	2001	2002	2002-11
Total Surplus	153	176	3,397
Off-Budget (mainly Social Security) Surplus	162	174	2,549
Non-Social Security Surplus	-9	2	847
Medicare HI Surplus	30	29	404

Source: Congressional Budget Office. Figures may not add due to rounding.

THE ECONOMY

P According to CBO, the softness in the economy – which started a year ago – has reduced the 2001 surplus by $41 billion, and the 2002 surplus by another $72 billion. (OMB estimates an economic effect of $46 billion in 2001 and $44 billion in 2002.)

P The prior administration ignored the economic slowdown that began last summer. But the current President and Congress acted by boosting trade, easing regulations, pursuing a long-term national energy strategy, and reducing tax burdens.

- The first installment of tax relief – returning $41 billion of tax overpayments this year, according to CBO (compared with the administration's figure of $40 billion) – is still being issued through tax rebates and lower withholding. Anecdotal evidence shows families are using these funds for significant purchases and investments, which will provide a needed boost to the economy.

- The Government will return another $71 billion of overpayments next year, CBO says (the administration's figure is $40 billion).

SOCIAL SECURITY AND MEDICARE

P Every penny of Social Security is going to Social Security, and every penny of Medicare is going to Medicare. *Social Security and Medicare benefits are fully protected.*

P As noted above, the CBO update also shows:

- Social Security surpluses total $2.5 trillion over the next 10 years.

- Non-Social Security surpluses total $847 billion over the next 10 years, including $404 billion in Medicare Hospital Insurance surpluses.

P Whatever surplus changes occur relative to the Social Security and Medicare trust funds only affect how much debt held by the public can be paid off in a given year.

- P In any case, the congressional budget is still on course to retire the maximum amount of public debt that can be retired in the next 10 years without penalty. Congress already has retired $478 billion of this debt.

- P It should be noted that spending for Social Security and Medicare is going up:

  - Spending on Social Security benefits was $406 billion in 2000; is $429 billion this year; and will be $453 billion next year.

  - Net spending for Medicare benefits was $216 billion in 2000; is $238 billion this year; and will be $253 billion next year.

  - But when the whole program overall is considered (both Part A and Part B), Medicare is in deficit, regardless of the state of the Hospital Insurance Trust Fund. Total Medicare outlays in 2001 are $242 billion, while dedicated revenues (payroll taxes, premiums, and interest) are only $192 billion. The $50-billion shortfall is made up through general tax revenues. (The administration projects slightly higher Medicare income, and estimates the shortfall in fiscal year 2001 at $45 billion.)

- P Finally, it should be emphasized that the Social Security surplus is an issue only because *the current Congress has been able to raise the standard for measuring fiscal policy*.

  - For decades, budget "balance" was measured by using all spending and revenue, including Social Security. The 1969 budget – the last "balanced" budget before 1998 – was balanced *only because* then-President Johnson created what became known as the "unified budget," which included Social Security.

  - But under Republican leadership, Congress has been able to set aside all Social Security funds and still balance the rest of the budget – *an unprecedented practice*. This can continue if Congress has the will to control spending.

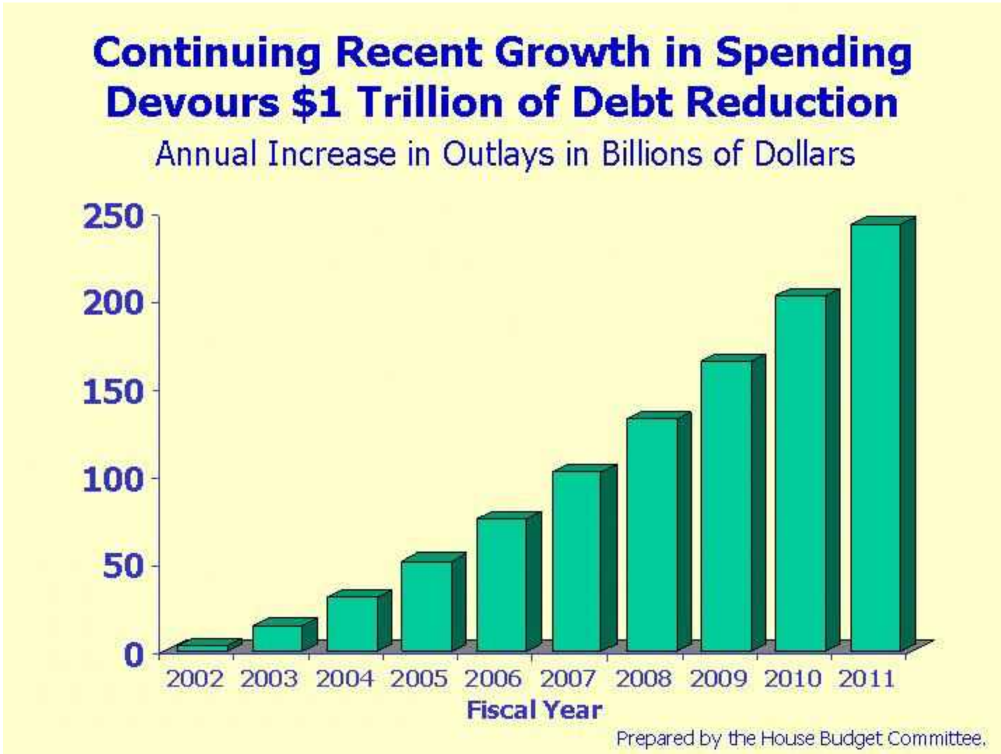
GOVERNMENT SPENDING

- P The biggest threat to future surpluses is spending.

- P Over the past 3 years, discretionary spending has grown by an average of 5.1 percent a year, significantly more than inflation.

  - This spending eats into surpluses that might otherwise have gone to debt reduction.

  - Recent increases in Government spending, if continued, will swallow about $1 trillion that otherwise could go to debt reduction over the next 10 years (see chart on the next page).



- So far in fiscal year 2001, adjusting for calendar effects, total spending has grown 4.3 percent. This is greater than the 2.5-percent rate of revenue growth, and greater than the estimated 3-percent rate of revenue growth that would have occurred without tax relief.

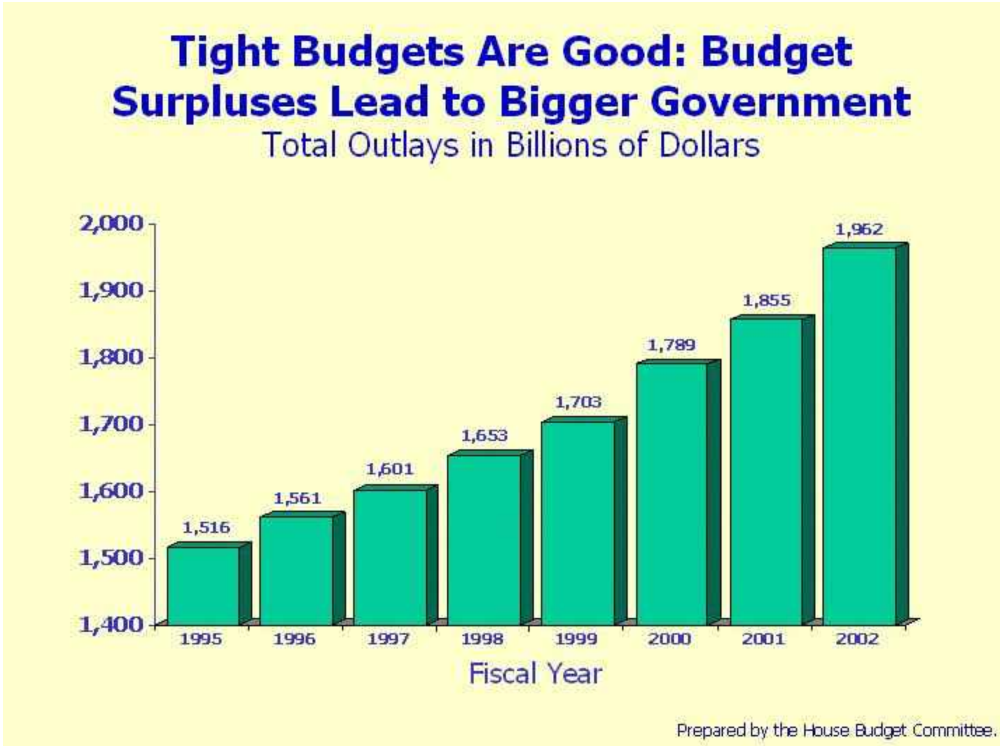
- In last year's battle over the 13 regular appropriations bills for fiscal year 2001, House-Senate conferences commonly agreed to higher levels of spending than was contained in either the House-passed or Senate-passed version of the legislation.

  - For nondefense accounts, spending above the larger of the House-passed or Senate-passed bill totaled $17.2 billion in 2001 budget authority [BA]. The outlays and debt service cost of this added spending reduced the fiscal year 2001 surplus by $10.9 billion.

  - This increase was built into the "baseline" used to determine the level of discretionary spending for 2002. Thus, the $17.2 billion in higher 2001 BA reduced the fiscal year 2002 surplus of $16.1 billion.

  - Over the 2002-2011 period, the 2001 nondefense spending increase reduced the projected surplus by $254.4 billion.

- The $6.5-billion supplemental appropriation for this year agreed to by the President and Congress is incorporated in CBO's baseline projections over the next 10 years. CBO assumes the supplemental amount, plus inflation, for each of the next 10 years. This reduces the projected surplus by $83 billion over the 2002-2011 period.



P Other examples of significant spending increases:

- The Education Department has received an average annual increase of 12 percent over the past 5 years. The Department's discretionary budget has swelled 83 percent since 1996, and its fiscal year 2001 appropriation represented an 18-percent increase over fiscal year 2000.

- Discretionary spending programs in the Department of Health and Human Services [HHS] – including the National Institutes of Health – increased 15 percent from fiscal year 2000 to fiscal year 2001.

- Mandatory HHS programs, including Medicare and Medicaid, increased by 12 percent from 2000 to 2001 – and this was during a period of relatively slow growth in these programs. Already this year, Medicare spending is 7.5 percent higher than a year ago.

P In short, tight budgets are good – surpluses only lead to more spending.

COMPARISON WITH ADMINISTRATION FIGURES

Although the CBO figures resemble those of the administration in big-picture terms, differences in specific figures result from differences in assumptions and methodology. Here is a brief account of some of the key differences.

- **Economic Assumptions** – As noted above, CBO and OMB are distinct agencies that develop their own economic assumptions; and there are many components of these assumptions that can affect their respective estimates. Nevertheless, both agencies assume real growth in gross domestic product [GDP] of 1.7 percent this year. CBO estimates real GDP will grow about 2.6 percent next year, a somewhat more pessimistic figure than OMB's 3.2 percent. For the balance of the period through 2011, both agencies estimate real GDP will grow, on average, about 3.2 percent per year.

  It is important to note that even a slight difference in economics, in a $10-trillion economy, can change estimates by tens of billions of dollars in a $2-trillion budget.

- **Baseline versus "Post-Policy" Assumptions** – The administration uses a so-called "post-policy" projection, meaning – to put it simply – it assumes the spending effects of its own policy proposals. Consequently, the administration's long-term surplus projections already take into account the President's proposed policy initiatives. CBO, on the other hand, uses its so-called "baseline," which counts only programs already in effect and new programs that have been signed into law.

  Nevertheless, both are projections that cannot be drawn with perfect precision. They are useful as a guide for policymakers, but should not be taken as absolutes.